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IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1943.

Nos. 54, 55.

THE MERCOID CORPORATION,
Petitioner,

vs.

MID-CONTINENT INVESTMENT COMPANY and MINNEAPOLIS-HONEYWELL REGULATOR COMPANY,
Respondents.

BRIEF FOR RESPONDENT, MINNEAPOLIS-HONEYWELL REGULATOR COMPANY.

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To the Honorable, the Chief Justice and Associate Justices of the Supreme Court of the United States:

Minneapolis-Honeywell Regulator Company, respondent, presents its brief as follows:

Decisions Below.

N. D. Ill., Igoe, J., Findings and Conclusions, R. 736; Final Decree, R. 744 (43 F. S. 692); Circuit Court of Appeals, Seventh Circuit, Opinion, R. 909 (133 Fed. (2d) 803).

Jurisdiction.

This is a suit for infringement of patent brought by Mid-Continent Investment Company, hereinafter called Mid-Continent, against The Mercoid Corporation, hereinafter called Mercoid. Minneapolis-Honeywell Regulator Company, hereinafter called Honeywell, was made an involuntary plaintiff on Mercoid's Motion. The suit is brought under 28 U. S. C. 41 (7). It also involves a request by Mercoid for declaratory judgment under 28 U. S. C. 400.

Mercoid pleaded respondents' use of the patent to monopolize unpatented controls, as a bar, and as violation of the anti-trust laws, and asked damages under 15 U. S. C. 15.

Certiorari was sought under 28 U. S. C. 347.

Statement of Case.

As stated by the Court of Appeals, Honeywell is a party to only one of the issues involved, whether Honeywell, by itself or in combination with Mid-Continent, "attempted to use the Cross patent and monopolize an article beyond the bounds of the patent, and thereby violated the anti-trust laws" (R. 922).

Mid-Continent originally sued Mercoid for contributory infringement of the Cross patent No. 1,758,146 (R. 2).

Mercoid answered, denying infringement and setting up various defenses in which Honeywell is not involved (R. 9).

Mercoid also alleged that Mid-Continent had granted a license to Honeywell under the Cross patent to make articles not covered by the patent and to sub-license others, and had thus used the patent to set up a monopoly in articles beyond the boundaries of the patent (R. 9).

Mercoid further alleged that in the license arrangement Mid-Continent and Honeywell had conspired to violate the

anti-trust laws by using the patent to establish a monopoly in articles not within its scope.

Mercoid counterclaimed and further alleged that Mid-Continent and Honeywell had conspired to violate the anti-trust laws by using the patent to establish a monopoly in articles not within its scope (R. 12).

Thereafter Mercoid moved to have Honeywell made a party plaintiff, as an exclusive licensee under the patent and as a party to the alleged conspiracy (R. 22). The Court granted the order and Honeywell was thus made an involuntary plaintiff.

Honeywell then pleaded only with respect to conspiracy and violation of the anti-trust laws denying such allegations, and did not become a party to the other issues between Mid-Continent and Mercoid (R. 32).

The District Court below held that the patent had been misused in violation of the anti-trust laws and provided for injunctive relief, but dismissed the counterclaim for damages (R. 736 and R. 745).

Honeywell appealed from the decision against it (R. 748) and Mercoid appealed from the dismissal of the counterclaim "insofar as it relates to collection of damages" (R. 759).

Mid-Continent's appeal involved other issues.

On Honeywell's appeal, the decision of the District Court denying damages to Mercoid was sustained and in all other respects was reversed (R. 923). It was expressly found that Honeywell had not by itself, or in combination with others, violated the anti-trust laws (R. 922).

Petition for re-hearing was filed and denied (R. 927).

Issue.

Honeywell is not involved in the controversies over misuse of the patent as a bar to suit for infringement, contributory infringement or validity.

The only issue involving Honeywell is raised by Mercoid's assertion that Mid-Continent and Honeywell have improperly used the patent to monopolize an unpatented part (Mercoid Brief, p. 4 [3]).

There should be added the fact that the Honeywell controls referred to had no other use but for the Cross combination. It was upon this fact that the issue involving Honeywell, turned in the Court of Appeals (R. 921).

OUTLINE OF ARGUMENT.

Honeywell conduct, of which Mercoid complains, was directed solely toward protecting Honeywell's sale of its special stoker switch which has no use except in the Cross combination, and which therefore embodies the Cross advance in the art.

This conduct was within Honeywell's rights under the Cross patent.

ARGUMENT.

Honeywell's position is that all of the conduct upon which Mercoid relies, was directed toward protecting Honeywell in the sale of stoker switches which had no other use except in the Cross combination, and therefore embodied the Cross advance in the art, and that this conduct was within Honeywell's rights as a licensee under the patent and therefore did not violate the anti-trust laws.

Brief Statement of Honeywell's Conduct Upon Which Mercoid Relies.

We first briefly outline those acts of Honeywell constituting the conduct upon which Mercoid now relies (Mercoid Brief, p. 36, ff.).

1. The license from Mid-Continent to Honeywell (R. 458).

2. The letters to the trade—

(a) by Honeywell in 1932 (R. 649);

(b) by Mid-Continent in 1932-4 (R. 647, 657, 659).

3. The patent notices;

(a) in Honeywell's catalog (R. 594, 595, 597);

(b) required of the sub-licensee in Honeywell's license to Detroit Lubricator Company (R. 726).

4. Suit against Mercoid, not by Honeywell, but by Mid Continent.

Before proceeding with further consideration of the facts, we dispose of this last act, to-wit, the suit against Mercoid. It is mentioned in Mercoid's brief, p. 38, third paragraph. There is not the slightest evidence that Honeywell had anything to do with bringing the suit against Mercoid, and there is positive evidence that it did not. Mercoid merely states, without any evidential support, that the bringing of the suit against Mercoid is part of a plan participated in by Honeywell.

H. W. Sweatt, president of Honeywell, stated that Honeywell had nothing to do with the litigation brought by Mid-Continent against Smith in Kansas (its (defended by Mercoid) (R. 431). Sweatt then testified that the relationship by Honeywell with Mid-Continent for many years had been the relationship of licensee and that Honeywell brought no pressure on Mid-Continent (R. 432).

The licefise to Honeywell may have permitted Honeywell to bring such a suit (R. 461, par. 10), but the facts here are that Honeywell brought no suit and was not originally a party in this suit, of its own volition nor by Mid Continent, but at the instance of Mercoid.

Cross, of Mid-Continent, testified (R. 434) that Mid Continent acted entirely independent of Honeywell in starting the suit. He also testified that Mid Continent paid the fees in the Missouri suit, and that only Mid Continent was entitled to damages from Mercoid, and that Honeywell got into the 1940 negotiations only because it had an exclusive license, and was asked by Mid-Continent to consent to a license to Mercoid (R. 434-5).

We shall, therefore, give no further consideration to this particular feature of Honeywell's conduct, to-wit, the bringing of the suit against Mercoid.

The Facts.

We now turn to a discussion of the pertinent facts.

We will first mention certain pertinent facts not considered in Mercoid's brief, and will then discuss the particular acts upon which Mercoid relies as against Honeywell.

The Cross patent No. 1,758,146, issued in 1930, on an application filed in 1926 (R. 778). The owner engaged in quite extensive exploitation of the invention of the patent prior to its issue (Cross testimony, R. 65 and following).

The Cross patent was for a combination of elements in a coal burning, stoker fired furnace. The thing that Cross did that was new and constituted his advance in the art was the provision of a

"thermostatic control actuated by"

temperature in the furnace for starting the stoker and supplying fuel when the temperature got so low the fire might otherwise go out.

After the Cross application was filed and after some of these activities by the owner, and before the patent issued, Honeywell put out a control for accomplishing

this Cross purpose (R. 424). Honeywell called the apparatus it sold for bringing this about a "hold fire control." It learned about the Cross patent and was then faced with the question of what should be done. It could either anticipate litigation against its customers for infringement, or against itself for contributory infringement, or it could take a license. It investigated and decided to take a license (R. 424 bottom; 425 top and bottom). It took the license to obtain protection and freedom (R. 427, bottom). These controls were put out with wiring diagrams showing how the hold fire control was to be used with a stoker. Honeywell was convinced this use came under the claims of the Cross patent (R. 429, bottom).

Honeywell License.

Honeywell took the license of December 23, 1931 (R. 450), and on December 31, 1938 was given a substitute and very similar license (R. 458), the ownership of the patent having changed in the interim.

Honeywell was a maker of controls for installation in furnaces. Both of these licenses contained a definition of the control it was expected Honeywell would make, and on which it was agreed Honeywell should pay royalties. That definition is the same in both licenses and is here quoted:

> "2. It is jointly and severally agreed by all of the parties hereto that royalty payments to be made hereunder shall be made on based upon what are known to the parties hereto as a 'combustion stoker switch' which is specifically herein defined as a combination stoker control unit including an automatic electric switch responsive directly to temperatures of combustion gases or boiler water produced by an automatic coal-fuel stoker and adapted, in combination with other devices and apparatus for the control of automatically operated coal fuel stokers, to prevent

the extinguishment of its fire when operating under low heat requirement conditions."

That definition clearly applied to a control usable only in the Cross combination for inevitably accomplishing the Cross purpose.

The Honeywell Commerciai Control.

When H. W. Sweatt, president of Honeywell, was on the stand, the Court asked him:

> "When you put that particular appliance in conjunction with a system of heating, you are operating under the Cross patent?
>
> "A. That is correct.
>
> "Q. You can sell that to someone else for some other purpose?
>
> "A. It would have no other purpose" (R. 428).

Owens, of Mercoid, had testified that a year or two after Mercoid's accused controls had left Mercoid's plant it could be assumed that it had been used some place for the purpose for which it was intended. He meant that it was used in a Cross installation. That testimony was called to the attention of Cross of Mid-Continent, and he testified that that was generally the fact in the control industry so far as he knew, and that was the reason why the stoker stack control was used as a measure of determining the number of installations in the field (R. 438). Cross said at that point:

> "Minneapolis-Honeywell apparently felt it was reasonable to conclude that a switch designed for this purpose and sold with wiring diagrams showing how to use them for this purpose, would get into an installation of the type intended."

We submit it is clear that the control defined in the license contract and the control sold by Honeywell, was a control which measured and marked the use of the Cross invention embodying the Cross advance in the art and could be used for no other purpose.

All of the Conduct of Honeywell Here Complained of Was Directed Toward Protecting Its Business in the Sale of that Particular Special Control.

We urge that that conduct so directed was proper and within Honeywell's rights under its patent.

We take up item by item the conduct complained of.

All of Honeywell's conduct complained of was directed toward protecting its sale of the Cross advance in the art.

Nothing more need be said about the license itself. We believe Honeywell had a right to protect its sale of the stoker control defined in the license. It had a right to sell. It had a right to take the license.

Letters.

We refer next to the letters to the trade.

In 1932, after it took out its license, Honeywell wrote a very mild letter to the trade, copy of which is found on R. 649. It directed attention to the unsatisfactory situation in the stoker industry due to the need of something to prevent the fire from going out, and it said that the best of the fire prevention systems was that of Cross. It told the public it had received a license under the Cross patent. It told the public the patent did not cover individual controls, as such, but rather the system. It told the public that it could now give to the purchasers of its stoker controls a license under the Cross patent.

We submit that this 1932 letter was a legitimate exercise of Honeywell's right under the patent and a very fair statement to the purchasing public.

In 1932 Mid-Continent sent out to the trade another very mild letter (R. 647), saying that the sale of the complete Cross stoker system or the sale of the instrument for use in the system, constituted infringement, and suggesting the trade purchase from those who had rights under the patent. There is evidence that Mid-Continent sent one letter to Fairbanks-Morse & Company in 1934 objecting to that company's purchase of controls for

> "maintaining predetermined minimum fire box temperature in connection with stoker fired furnaces from a company not licensed by us to sell controls for this purpose." (R. 659.)

This letter, we maintain, was within the rights of Mid Continent.

Honeywell had a right to protect its sale of its special stoker switches. The owner of the Cross patent clearly had the right also to protect such sales to thereby preclude infringement of its patent.

With all of Mercoid's diligence, it was not able to disclose any letters sent out by either Honeywell or Mid Continent in the last nine years.

Patent Notices.

Mercoid also complains of the notices in Honeywell's catalog (R. 595, 594, 597) and the similar notice which was provided for in Honeywell's license to Detroit Lubricator Company (R. 726).

We urge that Honeywell had a right to protection under the patent laws in the sale of its controls of the kind above-described and since it had that right, it likewise had the right to advise the public that it gave licenses only to the purchasers of such controls.

Incidentally, it is perfectly obvious that Honeywell's practice was more liberal than that particular notice.

Honeywell licensed Detroit Lubricator Company (Mercoid Brief, p. 10, and R. 425), it offered licenses to Penn Electric Switch Co. and to Mercoid, and never refused to grant a license to anyone who made a request (R. 425).

From the foregoing, it appears that all of the Honeywell conduct complained of was directed only to exploiting the sale of the special stoker switch, which had only one use, to-wit, that of bringing about an embodiment of the Cross invention.

Certainly Honeywell had the right to protect such sales under the patent laws.

We are preparing and filing at this time a brief in the case of *The Mercoid Corporation* v. *Minneapolis-Honeywell Regulator Company*, Nos. 58 and 59 in this Court, in which we have extensively referred to authorities pertinent to the proposition just stated. It is our understanding that that case and the case at bar will be argued one after the other. We therefore refrain here from quoting from many pertinent authorities there cited.

We do, however, call attention to the fact that the conduct complained of here is justified under the opinion of this Court in

U. S. v. *Univis Lens Co.*, 316 U. S. 241,

decided last year. In the *Univis* case, this Court approved a license from the corporation to the Lens Company (p. 254). That license called for the payment of royalty on a lens blank, which was not the complete patented lens structure (p. 248, bottom), but this Court said the blank

> "embodies essential features of the patented device and is without utility until it is ground and polished as the finished lens of the patent" (p. 249).

This Court approved that license and refused to enjoin performance under it as a violation of the anti-trust laws.

The conduct of Honeywell herein complained of is exactly parallel to that approved in the *Univis* case. The stoker control sold by Honeywell "embodies essential features of the" Cross "patented device and is without utility until it is" connected up in the finished system "of the patent."

Under the authority of the *Univis* decision, the conduct of Honeywell in this case is in the enjoyment of its right as a licensee under the Cross patent and is free from any taint of violation of the anti-trust laws.

We submit that the decision of the Circuit Court of Appeals for the Seventh Circuit should be affirmed.

Respectfully,

MINNEAPOLIS-HONEYWELL REGULATOR COMPANY,
By BAIR & FREEMAN,
Its Attorneys.

Of Counsel:
W. P. BAIR,
WILL FREEMAN,
GEORGE H. FISHER.
(October 14, 1943.)